

**MINUTES OF THE
UTAH TAX REVIEW COMMISSION**

Friday, February 9, 2007 – 7:30 a.m. – Room 110 House Building

Members Present:

Mr. M. Keith Prescott, Chair
Mr. David Crapo, Vice Chair
Sen. Brent Goodfellow
Sen. Lyle W. Hillyard
Rep. Rosalind J. McGee
Mr. Larry Barusch
Mr. Mark K. Buchi
Dr. Gary Cornia
Ms. Kathleen Howell
Comm. Bruce Johnson
Mr. Dixie Leavitt

Members Absent:

Ms. Janis A. Dubno
Rep. Wayne Harper
Mr. Bruce Jones

Staff Present:

Mr. Phillip V. Dean, Policy Analyst
Mr. Leif G. Elder, Research Analyst
Mr. Bryant R. Howe, Assistant Director
Ms. Phalin L. Flowers, Legislative Secretary

Note: A list of others present, a copy of related materials, and an audio recording of the meeting can be found at www.le.utah.gov.

1. TRC Business

Chair Prescott called the meeting to order at 7:38 a.m.

Mr. Howe distributed and discussed "Status of Legislation Adopted by the Utah Tax Review Commission" and a draft letter to members of the Legislature from the TRC concerning sales and use tax exemptions.

2. Amendments to the Individual Income Tax

Sen. Wayne Niederhauser distributed and discussed 2007 General Session S.B. 223 1st Substitute "Tax Amendments." He said that under this bill 80 percent of taxpayers would switch to the single-rate individual income tax system. He said that it is politically difficult to adopt a single-rate individual income tax system with no deductions or credits even though such a system is theoretically appealing.

Mr. Dean distributed and discussed "Estimated Impacts of SB 223 1st Substitute," "SB 223 1st Substitute Dollar Change in Tax Liability," "SB 223 1st Substitute Percent Change in Tax Liability," "1st Substitute Senate Bill 223, Tax Amendments," "Marginal and Effective Tax Rates with 1st Sub SB 223 Flat Tax Phaseout," "1st Substitute SB 223 Income Tax Analysis," and "Hypothetical Taxpayer Cases, Tax Year 2007."

Dr. Ray Nelson, Associate Professor, BYU (Brigham Young University), distributed and discussed "Utah Personal Income Tax Revenue Volatility." He explained how different income tax credits affect volatility in the individual income tax system and how the various tax reform proposals affect individual income tax revenue volatility. He said that there is no statistically significant difference in revenue volatility between 2007 General Session S.B. 223 and 2007 General Session H.B. 123. He said that under the current individual income tax system for every one percent reduction in adjusted gross income there is a four percent reduction in individual income tax revenue.

Chair Prescott distributed and discussed a draft of the 2007 tax year Utah Individual Income Tax Return. He said that one goal of tax reform should be the adoption of a more stable individual income tax system.

Individual income tax revenue volatility can be partially ameliorated by an adequately sized rainy day fund.

Rep. John Dougall commented that the Legislature would welcome the results of a study and recommendations from the TRC regarding the appropriate size of the state budget reserve accounts.

Mr. Brian Bolander, President, UACPA, addressed the TRC regarding changes to the state individual income tax system. He said that 2006 Fourth Special Session S.B. 4001, which allows a taxpayer to elect to use either the single-rate individual income tax system or multiple-rate individual income tax system, is confusing to both tax practitioners and taxpayers. He said that while he appreciates the political difficulty of adopting comprehensive tax reform, the Legislature should not increase the complexity of the individual income tax system. He also said that commercial tax software vendors and providers need adequate time to change tax return preparation programs following the adoption of changes to tax laws. Taxpayers who do not use a tax practitioner or a commercial software product to complete an individual income tax return may find it difficult to file an accurate return under the new dual option current system. For a small accounting firm, such as the one that he owns, there is a burden on the practitioner to explain the complexity of the tax system to taxpayer clients. Mr. Bolander concluded by saying that increases in complexity will result in higher tax return preparation costs for taxpayers.

Mr. Crapo asked if increased complexity could cause increased taxpayer noncompliance and errors, including failing to file an individual income tax return. Comm. Johnson said that while he could not speculate, some taxpayers with a small amount of withheld wages may not want to file a complex tax return when the expected refund amount is small.

Chair Prescott said that his greatest fear is that the state will have two equally complex individual income tax systems. If this happens, revenue volatility will not be reduced, complexity and the compliance burden will increase, and the tax system's transparency will be reduced.

Mr. Barusch suggested that the TRC send a letter to the Legislature stating that the TRC: (1) prefers a single individual income tax system over a dual individual income tax system, (2) has reservations about introducing volatility into the single-rate individual income tax system, and (3) recommends limiting the deduction amount of mortgage interest.

MOTION: Vice Chair Crapo moved to send a letter to the Legislature and the governor recommending that in deliberations on tax reform policy that consideration be given to principles of good tax policy including transparency, simplicity, and fairness. The motion passed unanimously with Mr. Buchi, Sen. Goodfellow, and Sen. Hillyard absent for the vote.

MOTION: Vice Chair Crapo moved that the letter to the Legislature and the governor state that the TRC believes that one individual income tax system is preferable to a dual individual income tax system. The motion passed unanimously with Mr. Buchi, Sen. Goodfellow, and Sen. Hillyard absent for the vote.

MOTION: Vice Chair Crapo moved that the letter to the Legislature and the governor recommend that in assessing individual income tax reform proposals that consideration be given to revenue volatility, the effect of increased revenue volatility, and that the Legislature should consider options to reduce volatility. The motion passed unanimously with Mr. Buchi, Sen. Goodfellow, and Sen. Hillyard absent for the vote.

MOTION: Vice Chair Crapo moved that the letter to the Legislature and the governor state that the TRC received testimony that certain tax credits may increase revenue volatility compared to a single-rate individual income tax with no credits.

SUBSTITUTE MOTION: Comm. Johnson moved to add to Mr. Crapo's motion a statement that phasing out credits may reduce some of the increased revenue volatility. The motion passed unanimously with Mr. Buchi, Sen. Goodfellow, and Sen. Hillyard absent for the vote.

MOTION: Vice Chair Crapo moved that the letter to the Legislature and the governor state that an adequately sized rainy day fund is one way to mitigate against the risk of revenue volatility and that the rainy day fund should be sized according to the amount of risk involved with the volatility of the tax system. The motion passed unanimously with Mr. Buchi, Sen. Goodfellow, and Sen. Hillyard absent for the vote.

MOTION: Comm. Johnson moved that during the 2007 interim the TRC evaluate any enacted individual income tax changes and study the size of the rainy day fund needed to mitigate against revenue volatility for the purpose of making a recommendation to the Legislature and the governor on the appropriate size of a rainy day fund. The motion passed unanimously with Mr. Buchi, Sen. Goodfellow, and Sen. Hillyard absent for the vote.

3. TRC Study Topics for 2007

This item was not discussed.

4. Other Business / Adjourn

MOTION: Vice Chair Crapo moved to adjourn the meeting. The motion passed unanimously with Mr. Buchi, Sen. Goodfellow, and Sen. Hillyard absent for the vote.

Chair Prescott adjourned the meeting at 9:41 a.m.